

# General Purposes & Audit Committee Supplementary Agenda



- 8. Progress Report** (Pages 3 - 42)  
The Audit Progress Report is attached.

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# Audit Progress Report

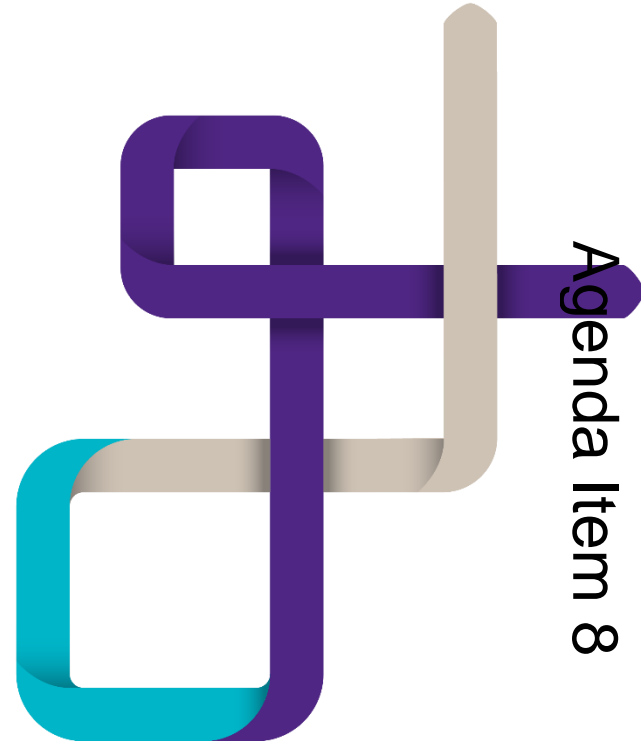
*Year ending 31 March 2020*

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London Borough of Croydon

20 October 2021

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## Section

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# 1. External Audit Summary

## General update:

### Financial Statements Audit

Our audit work has been progressed remotely over an extended period from November 2020 to July 2021. During this period we have stepped away from the audit in February 2021 to allow further working papers to be prepared, in May and June 2021 to allow the team to complete other audit commitments before returning with a wider team in July 2021 to substantially complete the audit. Our findings to date are summarised on pages 4 to 29. We have, to date, identified 8 adjustments to the financial statements that have resulted in a **£13.25 million** adjustment to the Council's Comprehensive Income and Expenditure Statement. We have also raised a number of recommendations for management as a result of our audit work as detailed within this report.

We will provide an Audit Findings Report once all outstanding matters are completed and this progress report updates members of the General Purposes and Audit Committee of our findings to date.

Our work is nearing completion, with the exception of one substantive item relating to the accounting treatment of the Croydon Affordable Homes (CAH)/Emergency Temporary Accommodations (ETA) schemes, and there are a number of matters which require modification of our audit report or include material changes to the financial statements. Audit progress on the financial statements is set out in pages 31 to 35 of this report.

Our work is subject to resolution of the accounting treatment of CAH/ETA and the following closing procedures which necessarily take place at the end of the audit:

Undertaking specified procedures on behalf of the Whole of Government Accounts group auditor (work required to issue the certificate but does not prevent us from issuing our audit opinion on the financial statements)

- Agreement and receipt of your management letter of representation
- Receipt and review of the final set of approved financial statements
- Receipt and review of the final approved Annual Governance Statement
- Final internal quality reviews of the File

Should any further matters arise during the completion of our work that we need to report to you, we will include these within our Audit Findings Report and communicated to you before we issue our opinion.

We have reported our findings in the following sections

2. Significant audit risks – covers our findings to date on the ten significant audit risks we identified as part of our planning (pages 5 to 20)
3. Other significant findings – covers our findings to date on six separate areas which we consider to be significant (pages 21 to 29)
4. Other issues – covers our findings to date on a further five areas (pages 30 to 33)
5. Impact on financial statements – covers the impact of adjustments we have agreed to date and unadjusted misstatements (page 34)
6. Progress – in a tabular form to summarise our progress (pages 35 to 39)

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# 1. External Audit Summary

## General update:

### Value for Money (VfM) arrangements

We have substantially completed our risk-based review of the Council's value for money arrangements. We have concluded that London Borough of Croydon Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our 2018/19 value for money conclusion was an adverse qualification.

We issued a Report in the Public Interest on 23 October 2020 highlighting concerns on financial sustainability and governance. Our audit plan addendum reported to Committee in November 2020 identified the significant risks relating to

- Financial sustainability
- Governance of finance and group structures

During the audit we continue to update our risk assessment and have identified two further areas as significant risks:

Delivery of housing services

The refurbishment of Fairfield Halls

We will bring a detailed report on our findings within the four areas where we have identified significant risks. We anticipate issuing an adverse qualification on the 2019/20 value for money conclusion and our detailed report will set out the specific findings.

## 2. Significant audit risks

An update on progress on the significant audit risks identified and communicated to you via the Audit Plan and Audit Plan Addendum is found below:

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
COVID-19	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. A reduction was made to materiality levels previously reported at planning (see page 7 of this report for changes made to materiality levels). The draft financial statements were provided on 16 October 2020;</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert</li> <li>evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>evaluated whether sufficient audit evidence could be obtained through remote technology;</li> </ul> <p>(continued overleaf)</p>	<p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. An identical uncertainty has been included within the report for the Council's Investment Properties as well.</p> <p>You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>A similar issue has been identified in respect of the illiquid assets held by the Pension Fund, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' Paragraph mentioned above.</p>	<p>Our work has not identified any material issues in relation to Covid-19.</p>	<p>Our work has not identified any control findings in relation to Covid-19.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
COVID-19 (continued)	<ul style="list-style-type: none"> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> <li>engaged the use of an auditor expert to gain assurance over asset valuations.</li> </ul>	Noted on the previous page.	Noted on the previous page.	Noted on the previous page.



## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>The revenue cycle includes fraudulent transactions-attributable to income from fees and charges and other service income</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated the Group and Council’s accounting policy for recognition of income from fees and charges and other services for appropriateness;</li> <li>gained an understanding of the Group and Council’s system for accounting for income from fees and charges and other services and evaluated the design of the associated controls;</li> <li>agreed, on a sample basis amounts recognised as income from fees and charges and other services in the financial statements to appropriate and sufficient audit evidence to gain assurance over the occurrence and accuracy of income.</li> </ul>	<p>From the work performed to date, we identified two issues relating to the Allowance for Credit Losses included within the draft Accounts:</p> <ol style="list-style-type: none"> <li>Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by <b>£1.5 million</b>.</li> <li>Secondly, during the course of the audit, we identified <b>£6.9 million</b> of revenue relating to outstanding Schools Utility Charges which were several years old and hence an Allowance should have been made against these items. It was calculated by the council that the allowance required for these charges was <b>£4.6 million</b>. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted <b>£3 million</b> of invoices which were raised in 2019-20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated, a revised calculation provided by the council deemed the total provision should have been made of <b>£5.3 million</b> as opposed to <b>£4.5 million</b> originally calculated.</li> </ol> <p>Both of these items have been charged against the Council’s General Fund Balance, in line with the standard accounting for these items, and thus have generated a reduction in the General Fund balance of <b>£6.1 million</b> from that reported in the draft Financial Statements.</p>	<p>Yes misstatements have been identified as below:</p> <ol style="list-style-type: none"> <li><b>Adjusted:</b>  DR CIES - Impairment loss allowance £1,500k  CR Balance Sheet- Debtors (Allowance for Credit Loss) £1,500k</li> <li><b>Adjusted:</b>  DR CIES - Impairment loss allowance £4,597k  CR Balance Sheet- Debtors (Allowance for Credit Loss) £4,597k</li> </ol> <p><b>Unadjusted:</b></p> <p>DR CIES - Impairment loss allowance £768k</p> <p>CR Balance Sheet- Debtors (Allowance for Credit Loss) £768k</p>	<ol style="list-style-type: none"> <li>No control issue identified as a result of this finding.</li> <li>No control issue identified as a result of this finding.</li> </ol>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>The revenue cycle includes fraudulent transactions-attributable to income from fees and charges and other service income (continued)</p> <p>Page 10</p>	<p>Noted above.</p>	<p>3. Thirdly, we identified that Management were initially of the view that no Allowance for Credit Loss assessment was required for the loans issued to Brick by Brick Croydon Ltd. Management was of the judgement that no credit loss assessment was required as they deemed the value of the assets held on Brick by brick's balance sheet suggested that the loans could be fully recovered. However an assessment is still needed despite this as it is still possible for the Company to incur losses which would reduce the amount owed back to the Council, which would generate an impairment in the Council's books. An assessment was subsequently performed which identified no impairment was needed for 2019/20 but will have an impact on the position in 2020/21.</p> <p>4. Our testing on completeness of revenue identified an invoice raised in 2020/21 which related to services provided in 2019/20, and was above the Council's de-minimus level for items to be accrued. We were informed that this item was not raised in a timely manner due to the pressures of the pandemic, but despite this the Council needs to ensure items like this are raised in a timely manner, or accrued to ensure inclusion within the Accounts. We raised a similar issue in the prior year and thus this provides evidence that further work is need in this area.</p>	<p>3. No misstatement identified however management should look to ensure impairment loss assessments are carried out on all financial assets held.</p> <p>4. Trivial misstatement of £18k identified as a result of our income completeness testing, we selected a further sample to gain assurance over the completeness of revenue as a result of our finding, no further issues were identified as a result of further testing carried out. We are therefore satisfied that our finding is not indicative of a material issue affecting the 2019/20 financial statements.</p>	<p>3. No control issue identified as a result of this finding.</p> <p>4. Yes - prior year control issue and recommendation has not been actioned.</p> <p><b>Prior Year Control Finding:</b></p> <p><b>Risk</b> - During the course of our work on Income and Expenditure, we identified several items which had either been incorrectly accrued, or had not been accrued, both from an income and expenditure perspective. Whilst we were able to gain assurance that the impact of these errors was not material, the Council should look to strengthen its controls in this area to ensure the Accounts contain all of the relevant items in following years.</p> <p><b>Recommendation</b> - We recommended that the Council should revisit the Council's Accruals processes to ensure that items are correctly treated during the accounts preparation process. The Council should consider whether any de-minimus limits are set appropriately to ensure time is focused on those areas which could have a material impact on the Accounts.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>The revenue cycle includes fraudulent transactions-attributable to income from fees and charges and other service income (continued)</p> <p>Page 11</p>	<p>Noted above.</p>	<p>5. As part of our revenue (occurrence and accuracy) testing, we sampled 198 items for testing. 49 items from this sample were found to be fails as you were unable to provide sufficient evidence to enable us to gain sufficient assurance over the occurrence and accuracy of the items selected. These issues can be broken down into the following categories:</p> <ul style="list-style-type: none"> <li>- 15 items where management were unable to provide evidence of receipt of income into the Council's bank account</li> <li>- 20 items where no invoices were provided to verify the accuracy of income receipted by the Council</li> <li>- 7 items where income related to 2018/19 however was recorded in 2019/20 therefore, management had not accrued for these items in the correct accounting period</li> <li>- 7 items where management were unable to explain the accounting treatment of revenue items in line with evidence viewed.</li> </ul>	<p>5. The total value of the 49 fails was <b>£14k</b> which generated an extrapolated error of <b>£590k</b>, which is below our triviality level, and therefore management has not adjusted for this misstatement. Based on our testing performed we are satisfied this finding does not indicate a material error in relation to the 2019/20 financial statements.</p>	<p>5. Yes control finding identified as a result of work performed.</p> <p><b>Ensuring sufficient records are kept to support transactions undertaken by the Council:</b></p> <p><b>Risk</b> - There is a risk that inappropriate or unauthorised transactions are incurred by the Council where no records are kept to evidence the appropriateness of transactions undertaken by the council.</p> <p><b>Recommendation</b> - Management should ensure that evidence is stored safely and securely to support the occurrence and accuracy of all transactions undertaken by the Council.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Completeness of operating expenditure and associated creditor balances</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Evaluated the design and implementation effectiveness of the accounts payable system.</li> <li>Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger.</li> <li>Searched for unrecorded liabilities by performing substantive testing on a sample of invoices input on to the accounts payable system post period end.</li> <li>Searched for unrecorded liabilities by reviewing cash payments post period end.</li> <li>Performed substantive testing on a sample of expenditure included within the year to make sure it is correctly recorded.</li> </ul>	<p>From the work performed to date, we have identified issues with transformation expenditure, the provision relating to a dispute with Kier Highways and two aspects of our expenditure testing.</p> <p><b>1. Transformation Expenditure</b></p> <p>During our testing over the occurrence/accuracy of transformation expenditure we identified 5 items (totalling <b>£258k</b>) from a sample of 20 items which did not meet the requirements to be accounted for as transformation expenditure. This error was extrapolated over the population which resulted in a total extrapolated error of <b>£7.071 million</b>. We are satisfied based on our work performed that this is not indicative of a material issue impacting the 2019/20 financial statements.</p> <p><b>2. Provisions</b></p> <p>The Council made a provision in respect of a contract dispute with Kier Highways. The Council's legal advice was that a provision of <b>£1.8 million</b> should be made to cover the potential losses from this case, but the Council chose to only provide <b>£500k</b> due to the ongoing financial pressures. We consider the provision to be understated by <b>£1.3 million</b>. We are satisfied based on our work performed that this is not indicative of a material issue impacting the 2019/20 financial statements.</p>	<p>Yes misstatements have been identified as below:</p> <p><b>1. Unadjusted:</b></p> <p>DR General Fund Expenditure £7,449k CR General Fund £7,449k</p> <p><b>2. Unadjusted:</b></p> <p>DR General Fund Expenditure £1,300k CR Provisions £1,300k</p>	<p>1. Yes control finding identified as a result of work performed.</p> <p><b>Inappropriate use of Transformation Funding:</b></p> <p><b>Risk</b> - There is a risk that ineligible expenditure is accounted for as transformation expenditure and masks the true general fund position by understating general fund expenditure. There is also a risk that the Council does not benefit from true transformational change as a result of ineligible use of transformation funding.</p> <p><b>Recommendation</b> - Management need to ensure there are clear plans in place for the use of transformation funding, and that it is going to deliver the required transformation to ensure this funding is used in line with the guidance in this area.</p> <p>2. No control issue identified as a result of this finding</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Completeness of operating expenditure and associated creditor balances (continued)</p>	<ul style="list-style-type: none"> <li>Performed substantive sample testing of liabilities recorded in the ledger to gain assurance that liabilities are accurate and not understated.</li> <li>We also performed testing on the expenditure which has been classified as Transformation Expenditure in year to confirm it meets the requirements to be classified in this way.</li> </ul>	<p><b>3. Completeness of operating expenditure</b></p> <p>Our testing on the completeness of operating expenditure identified an invoice receipted on the system in 2020/21 which related to services incurred in 2019/20, and was above the Council's de minimus level for items to be accrued.</p> <p>We were informed that this item was not raised in a timely manner due to the pressures of the pandemic, but despite this the Council needs to ensure items like this are raised in a timely manner, or accrued to ensure inclusion within the Accounts. We raised a similar issue in the prior year and thus shows that further work is needed in respect of this area.</p>	<p>3. Trivial misstatement of £11k identified as a result of our operating expenditure completeness testing, we selected a further sample to gain assurance over the completeness of operating expenditure as a result of our finding, no further issues were identified as a result of further testing carried out. We are therefore satisfied that our finding is not indicative of a material issue affecting the 2019/20 financial statements.</p>	<p>3. Yes - prior year control issue and recommendation has not been actioned.</p> <p><b>Prior Year Control Finding:</b></p> <p><b>Risk</b> - During the course of our work on Income and Expenditure, we identified several items which had either been incorrectly accrued, or had not been accrued, both from an income and expenditure perspective. Whilst we were able to gain assurance that the impact of these errors was not material, the Council should look to strengthen its controls in this area to ensure the Accounts contain all of the relevant items in following years.</p> <p><b>Recommendation</b> - We recommended that the Council should revisit the Council's Accruals processes to ensure that items are correctly treated during the accounts preparation process. The Council should consider whether any de-minimus limits are set appropriately to ensure time is focused on those areas which could have a material impact on the Accounts.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Completeness of operating expenditure and associated creditor balances (continued)	Noted above.	<p><b>4. Operating Expenditure (occurrence and accuracy) testing</b></p> <p>As part of our operating expenditure testing, focusing on items recorded in the year of account, we tested 120 items. 16 items from this sample were found to be fails as a result of insufficient evidence provided to audit to gain assurance over the occurrence and accuracy of the operating expenditure item. These errors can be grouped as follows:</p> <ul style="list-style-type: none"> <li>- 5 items where no invoices were provided to evidence the accuracy or occurrence of expenditure received by the Council</li> <li>- 3 items where income related to 2018/19 however was recorded in 2019/20 therefore, management had not accrued for these items in the correct accounting period</li> <li>- 8 items where the sample evidence provided did not reconcile back to the sample item selected for testing</li> </ul>	<p>4. The total value of fails was £275 which was extrapolated to £282k which is below our triviality level therefore management has not adjusted for this misstatement. Based on our testing performed we are satisfied this finding does not indicate a material error in relation to the 2019/20 financial statements.</p>	<p>4. Yes control finding identified as a result of work performed.</p> <p><b>Ensuring sufficient records are kept to support transactions undertaken by the Council:</b></p> <p><b>Risk</b> - There is a risk that inappropriate or unauthorised transactions are incurred by the council where no records are kept to evidence the appropriateness of transactions undertaken by the council.</p> <p><b>Recommendation</b> - Management should ensure that evidence is stored safely and securely to support the occurrence and accuracy of all transactions undertaken by the Council.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p><b>Management override of controls</b></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>During our journals testing, we identified two control issues: understanding of the purpose of journals; and the self-authorisation of journals.</p> <p><b>1. Purpose of the journal</b></p> <p>From our testing performed we identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff raised that these journals had been prepared by the former Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. This is a fundamental control failing. All staff members should be able to explain the journals that they have posted during the course of the year, even if these have been prepared by other members of the finance team as may happen on some occasions. In terms of the journals themselves, we traced each of the journals identified back to the appropriate supporting documentation, and was able to speak to individuals in the Council who had more knowledge on the areas in question to gain sufficient assurance that these journals were proper and appropriate, and were not indicative of fraud.</p>	<p>1. We are satisfied from testing the journal to underlying evidence that journals identified as being posted without relevant knowledge for the posting are not indicative of fraud and therefore we have not identified a material issue impacting the 2019/20 financial statements as a result of this risk.</p>	<p>1. Yes, control finding identified as a result of work performed.</p> <p><b>Ensuring journals are only posted by staff where fully understood</b></p> <p><b>Risk</b> - there is a risk that inappropriate journals are posted to the finance system where individuals do not understand the reason or purpose for the journal being posted.</p> <p><b>Recommendation</b> - Ensure that members of staff only post journals where they are clear on the business rationale for doing so and can explain the purpose of the journal. Where staff do not have this information, they should not post the journal until they are comfortable it is reasonable and appropriate to be posted.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Management override of controls (continued)	Noted above.	<p><b>2. Self-authorisation of journals</b></p> <p>Our testing also identified that several journals had been posted and authorised by the same individual. This is not in line with the Council's Policies which prohibit the self-authorisation of journals. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal.</p>	<p>2. We are satisfied from testing the journal to underlying evidence that journals identified as being self authorised and not subject to secondary review are not indicative of fraud and therefore we have not identified a material issue impacting the 2019/20 financial statements as a result of this risk.</p>	<p>2. Yes, control finding identified as a result of work performed.</p> <p><b>Self authorisation of journals</b></p> <p><b>Risk</b> - there is a risk that inappropriate journals are posted to the finance system where journals are not subject to review by a separate individual from the individual posting the journal.</p> <p><b>Recommendation</b> - Management should ensure that a control is implemented to prevent users from posting and authorising their own journals within the finance system, where this is impractical to do so detection controls should be implemented such as regular monitoring of journal postings to ensure no inappropriate journals are posted to the system.</p>



## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Valuation of land and buildings</b>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>discussed with the valuer the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation;</li> </ul>	<p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020.</p> <p>You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>Our testing over the valuation of land and buildings highlighted a number of control deficiencies relating to the processes carried out by the Council in relation to land and building valuations.</p> <p>1. When testing the Council's asset valuations, we identified that some assets had not been classified on the Property Plant and Equipment Register under the correct valuation basis (DRC, EUV, FV). There has been no material impact on the closing valuation of these assets for 2019/20 as a result of this deficiency.</p>	<p>No misstatement identified however, we will reflect your disclosure with an emphasis of matter paragraph within our audit opinion.</p> <p>1. No misstatement identified as a result of this finding however a control finding has been identified.</p>	<p>No control issue identified as a result of this finding.</p> <p><b>1. Land and Building Valuations Risk</b> - there is a risk that where material assets are not classified correctly for valuations purposes, this could cause a material error within the financial statements as they could be valued incorrectly.</p> <p><b>Recommendation</b> - We therefore recommend that management reviews the valuation basis of assets per the Fixed Assets Register with a focus on those showing as FV, OMV or those left blank.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Valuation of land and buildings (continued)</b>	<ul style="list-style-type: none"> <li>tested a sample of revaluations made during the year to see if they had been input correctly into the Authority's asset register;</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p>2. During our testing on the valuations of Investment Properties and Land and Buildings, we challenged the external valuers (Wilks, Head and Eve) over whether they had tested the classification of assets against the definitions within the Code. They have confirmed that this is not a test that they perform directly based on instruction received from Croydon.</p> <p>3. We reviewed management's assessment of those assets which had not been formally revalued in-year and noted deficiencies within management's assessment, which included the fact that the adjustment factor calculation was incorrect, and it was difficult for the audit team to reperform management's calculation due to poor links between the working paper and the FAR/Valuer's report. On challenge, management has explained that this assessment had been rolled forward from prior years and therefore the methodology is outdated.</p>	<p>2. No misstatement identified as a result of this finding however a control finding has been identified.</p> <p>3. No misstatement identified as a result of this finding however a control finding has been identified.</p>	<p><b>2. Investment properties and land and building valuations</b></p> <p><b>Risk</b> - There is a risk that investment properties and land and buildings are incorrectly classified where reviews are not performed over classification of assets which could in turn provide an incorrect asset valuation.</p> <p><b>Recommendation</b> - We recommend that the Council reviews its asset classification to mitigate any risks/issues that could occur if assets are incorrectly classified. This exercise could either be performed by the valuers or the Council, this is especially important in cases where there is a significant change with an asset in year.</p> <p><b>3. Management's assessment of assets not revalued in year</b></p> <p><b>Risk</b> - There is a risk that assets that have not been revalued have a materially different carrying value at the balance sheet date and are not picked up by management through their assessment performed.</p> <p><b>Recommendation</b> - Management should look to update the methodology used from 2020/21 to perform a more robust assessment of un-revalued assets at year with clear links to the FAR and the valuation reports to ensure assets valuation does not materially differ from the carrying value and are valued correctly at the year end date.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Valuation of pension fund net liability</b>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to your management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul>	<p>To date, the only issue identified in respect of this area is the material uncertainty which is attached to the Pension Fund's illiquid assets, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020.</p> <p>Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' within our audit opinion.</p>	<p>No misstatement identified however, we will reflect your disclosure with an emphasis of matter paragraph within our audit opinion.</p>	<p>No control issue identified as a result of this finding.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Valuation of Investment Properties</b>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert ;</li> <li>written to the valuer to confirm the basis on which the valuations were carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation;</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and</li> <li>evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020.</p> <p>You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>The issues relating to the Council's investment in Croydon Park Hotel, which is held as an Investment Property in the statement of accounts, have been widely trailed in the public domain. However given the Hotel was still in operation at 31 March 2020, we are comfortable with how this has been considered in the 2019-20 Accounts. A different treatment will be required in the 2020-21 Accounts, which we have discussed and agreed with management as part of the work performed to date.</p>	<p>No misstatement identified however, we will reflect your disclosure with an emphasis of matter paragraph within our audit opinion.</p> <p>No misstatement identified and no further action will be taken in respect of the 2019-20 Accounts for this item.</p>	<p>No control issue identified as a result of this finding.</p> <p>No control issue identified as a result of this finding.</p>

## 2. Significant audit risks

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Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Transfer of properties from the Council to the Pension Fund	During the course of our work in this area, we identified that this transaction had not taken place during the course of the 2019/20 or 2020/21 financial years. In May 2021, the scheme was formally withdrawn at the Pension Fund Committee held on 25 May 2021. There is no impact on the 2019/20 Financial Statements.	As the scheme has been withdrawn there is no impact on the 2019/20 financial statements.	No misstatements have been identified as a result of work performed in this area.	No control findings have been identified as a result of work performed in this area.
Incomplete or inaccurate financial information transferred to the new General Ledger (New system implementation)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>completed an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new general ledger system</li> <li>mapped the closing balances from the 2018/19 general ledger to the opening balance position in the new ledger for 2019/20 to ensure accuracy and completeness of the financial information</li> </ul>	We have identified a number of control issues in relation to the IT environment of the new general ledger system. These issues were reported to the General Purposes and Audit Committee held on 14 January 2021, and a further update and discussion with management was held at the Committee held on 10 June 2021.	No misstatements have been identified as a result of work performed in this area.	<p>Yes, control finding identified as a result of work performed.</p> <p>Controls findings were reported to the General Purposes and Audit Committee on 14 January 2021 and 10 June 2021.</p>

## 2. Significant audit risks

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) schemes</p>	<p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• Evaluated the design and implementation of the Council's processes and controls in this area;</li> <li>• Reviewed the recommendations raised by the PwC Report where these impact the balances included within the Accounts and challenged Management on the appropriateness of these judgements.</li> <li>• Reviewed the accounting for these schemes within the 2019-20 Accounts, and considered the involvement of technical specialists to gain assurance over the appropriateness of the accounting.</li> <li>• Tested the transactions recorded in the 2019-20 Accounts to confirm compliance with the CIPFA Code of Practice for Local Authority Accounting.</li> </ul>	<p>From the work performed on this risk to date, we are currently in disagreement with the Council's accounting for these schemes. Our view of the arrangements in place for both ETA1 and ETA2 have identified that when the schemes are considered as a whole, under the requirements of SIC27, the assets in question have remained the property of the Council, both from a freehold and a leasehold perspective.</p> <p>The Council is currently seeking additional support to clarify its position and once this support is received we will look to take this area forward as quickly as possible.</p>	<p>To be determined – we will need to consider the additional support requested by the Council to confirm whether there is an issue here or not.</p>	<p>Yes - prior year control issue and recommendation has not been actioned.</p> <p><b>Prior Year Control Finding:</b></p> <p><b>Risk</b> - In 2017/18, we raised a recommendation in respect of the need for the Council to consider the accounting arrangements for the new ventures which the Council is embarking on during the development process, rather than once the arrangements are in place.</p> <p>This mainly related to the setting up of Croydon Affordable Homes LLP, where due consideration was not given to the reverse lease premium the Council benefited from under this arrangement.</p> <p>We highlighted that unless this was given appropriate consideration during the development process, then the Council could experience some unforeseen circumstances when preparing the financial statements at year end.</p> <p><b>Recommendation</b> - It is important that the Council seeks accounting advice when entering new and complex transactions.</p>

### 3. Significant findings - other issues

This section provides an update on progress on other issues identified during our audit of the financial statements:

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Group Accounts - Brick by Brick Croydon Ltd</p>	<p>We have performed the following work in respect of the London Borough of Croydon Group:</p> <ul style="list-style-type: none"> <li>Targeted review of specific material balances and reliance on the statutory audit performed by Ensors Chartered Accountants LLP.</li> <li>Reviewed the consolidation schedule produced by management to form the London Borough of Croydon group financial statements and associated notes.</li> </ul>	<p>A qualified disclaimer of opinion was issued in respect of Brick by Brick Croydon Limited (Brick by Brick) accounts was issued by Ensors Chartered Accountants LLP on 31 March 2021. A number of issues were identified by Ensors which led to the conclusion of the disclaimer opinion including:</p> <ol style="list-style-type: none"> <li>Limited evidence available to support the accuracy and existence of the loans balance included on the balance sheet. This included evidence to support the status of funds advanced to Brick by Brick by the parent company, the accuracy of relevant interest charges or repayment terms relating to the loan advances.</li> <li>During our work on the loans issued to Brick by Brick Croydon Ltd, we identified that delays in the publication of the 2019-20 Brick by Brick Accounts meant the covenants attached to these loans had been breached, meaning they were effectively repayable immediately to the Council, if the Council had chosen to exercise that option. As a result, all of these loans have been reclassified as Short Term Debtors in the Council's Accounts, from the Long Term Debtors balance where they were previously recorded.</li> </ol>	<ol style="list-style-type: none"> <li>Our work is in progress in this area and we are currently reviewing evidence provided by management to corroborate the existence and accuracy of loans provided from the Council to Brick by Brick.</li> <li>Yes misstatements have been identified, the Council has agreed to adjust and the amounts are being agreed:</li> </ol> <p><b>Adjusted</b></p> <p>Statement of Financial Position  DR Short Term Debtors £TBC  CR Long Term Debtors £TBC</p>	<p>1. Yes, control finding identified as a result of work performed.</p> <p><b>Ensure all legal documents are signed and stored securely</b></p> <p><b>Risk</b> - As part of testing of the Council's Long Term Debtors, in particular the Loans which have been issued to Brick by Brick Croydon Ltd, we identified that the Council did not have copies of all of the loan agreements that had been entered into, and where copies were held, not all of these were signed. Irrespective of who the counter party is, it is important that all of these types of documents are signed by all sides in a timely manner, and that the signed documents are appropriately stored so they can be located in the future as the need arises.</p> <p>There is a risk to the financial position of the Council where the Council is unable to monitor and identify breaches of loan covenants. There is also a risk that the Council does not obtain the correct repayment of loans plus interest where there is no formal documentation to support amounts provided to other parties.</p> <p><b>Recommendation</b> - Ensure that all loan agreements and similar documents are signed on a timely basis and are filed in a central location which is easily accessible so these can be accessed in the future should the need arise.</p>

### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Group Accounts - Brick by Brick Croydon Ltd (continued)</p>	<p>Noted above.</p>	<p>3. Material uncertainty over the going concern status of Brick by Brick including limited evidence available to support the going concern assumption adopted by management.</p> <p>4. Material errors were identified in respect of the timing of the recognition of construction costs as well as the accuracy of both the recorded value of creditors and work in progress recorded in the financial statements. These errors were adjusted for in the final set of financial statements however control weaknesses were identified around the reconciliation of project costing records and financial accounting records which led to limited audit evidence to support whether ongoing construction sites are likely to be profitably concluded.</p>	<p>3. Misstatement has not been identified as part of this finding however, following completion of our audit work we anticipate issuing a qualified disclaimer of opinion, due to the pervasive nature of the issues identified.</p> <p>4. The draft set of group financial statements included the consolidation of unaudited accounts for Brick by brick as at 31 March 2019. the audited statement of accounts for Brick by Brick as at 31 March 2020 contained a number of audit adjustments which have not been reflected in the draft statement of accounts for London Borough of Croydon Group. Management have revisited the Group financial statements to ensure the figures reflected in the consolidation of Brick by brick contain the audited figures for Brick by Brick post audit adjustments, audit are awaiting final working papers to complete our review of these figures.</p>	<p>3. No specific control finding has been identified as a result of this finding however we note the weaknesses within governance and oversight arrangements in relation to subsidiary companies which is commented on within our value for money work. Our value for money report will be communicated as a separate report on conclusion of our work in this area.</p> <p>4. No specific control finding has been identified as a result of this finding.</p>



### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Group Accounts - Brick by Brick Croydon Ltd (continued)	Noted above.	5. As part of our work on the Council's Related Party Transactions and Group Arrangements, we undertook a review of bodies disclosed on Companies House, which identified that one of the Council's wholly owned subsidiaries, the London Borough of Croydon Holdings LLP had been struck off the Register. This was due to the required filings not be done in a timely manner, and the subsequent reminders received by the Council did not make their way to the relevant individual. Whilst the Council has subsequently successfully applied to have this LLP reinstated, and the relevant assets returned from the Crown, it indicates weakness in the arrangements for the governance and monitoring of these arrangements, which is concerning given the number of these that the Council currently has in place.	5. No misstatements have been identified as a result of work this finding.	5. Yes, control finding identified as a result of work performed.  <b>Ensuring filing requirements for the Council's Companies is kept up-to-date</b>  <b>Risk</b> - There is a risk that companies are set up with minimal oversight and therefore intended benefits or interests held by the Council are lost due to lack of governance or oversight.  <b>Recommendation</b> - The Council should ensure clear arrangements are in place to make sure that documents are filed with Companies House in a timely manner to avoid the risk of strike-off action being taken against any subsidiaries in the future.

### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Dedicated Schools Grant (DSG)	<p>We have performed the following work in respect of the DSG:</p> <ul style="list-style-type: none"> <li>Reviewed the accounting treatment for the Prior Period Adjustment made by management in the financial statements</li> </ul>	<p>In 2018/19 the Council recorded the overspend as a debtor, we considered this accounting treatment to be incorrect and recorded this as an unadjusted misstatement in that year. As it was not material you chose not to adjust for the error.</p> <p>In 2019/20 the Council revised its accounting treatment to move the overspend from debtors to a negative earmarked reserve.</p> <p>Based on the CIPFA guidance our view is that an earmarked balance is unable to be presented in a deficit position. The Council has therefore adjusted the 2018/19 and 2019/20 overspend to be accounted for against the General Fund Balance. In 2019/20 this has reduced the General Fund Balance to be negative <b>£7.043 million</b> before consideration of any other audit adjustments are considered. The 2018/19 adjustment reduces the opening General Fund balance to a positive <b>£1.202 million</b> in 2018/19.</p>	<p>As part of the prior period adjustment posted to restate the Council's Dedicated Schools Grant, in particular the overspend position that was reported in the 2018/19 Accounts, the Council initially created a negative Earmarked Reserves, which is not in line with the guidance issued by CIPFA in this area. Subsequently, the Council amended the presentation in the Statement of Financial Position and Movement in Reserves Statement so this deficit position was reflected within the overall General Fund and Earmarked Reserves Balance. This issue will not be present in the 2020/21 Accounts as a Statutory Override has been put in place from the 1<sup>st</sup> of April 2020 for initially three years.</p>	<p>No control findings have been identified as a result of work performed in this area.</p>

### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Minimum Revenue Provision (MRP)</b>	<p>We have performed the following work in respect of the MRP charge:</p> <ul style="list-style-type: none"> <li>Reviewed the calculation of the MRP charge against the Councils policy on MRP and the statutory guidance on minimum revenue provision</li> </ul>	<p>Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. Whilst we accepted management’s assessment on why there was no MRP charge against Investment Properties, where the Council was still receiving income from these properties which could be utilised to fund the debt funding, we did not agree with management’s view on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. However as can be seen from the findings relating to Brick by Brick, no interest income has been received to date, and thus the lack of an MRP for these loans is not prudent in the circumstances.</p>	<p>Yes misstatements have been identified as below:</p> <p><b>Unadjusted</b></p> <p>DR General Fund Expenditure £2,170k</p> <p>CR Capital Adjustment Account £2,170k</p>	<p>Yes, control finding identified as a result of work performed.</p> <p><b>The setting of an inappropriate Minimum Revenue Provision (MRP)</b></p> <p><b>Risk</b> - There is a risk that expenditure is understated where MRP is not correctly charged. This could store up issues for the future and present an inability to repay borrowing for capital expenditure previously incurred.</p> <p><b>Recommendation</b> - Management should review their approach to calculating their MRP and ensure it is prudent and covers all areas of capital borrowing which have been undertaken by the Council irrespective of their purpose.</p>

### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Prudential Indicators</b>	<p>We have performed the following work in respect of prudential indicators:</p> <ul style="list-style-type: none"> <li>We reviewed the capital expenditure and financing note for completeness and accuracy in line with testing performed on other capital transactions and balances</li> </ul>	<p>During the preparation of the draft 2019/20 financial statements the Council noted the omission of PFI expenditure and property development loans from the capital expenditure and financing note. This was also excluded from the 2018/19 note which led to a materially incorrect opening CFR position in 2019/20. The Council restated the disclosure note for 2018/19.</p> <p>The Council corrected both the 2019/20 and restated the disclosure note for 2018/19 prior to providing the draft financial statements. We have reviewed the notes for 2019/20 and restated 2018/19 disclosures note and both are in line with the CIPFA Code guidance. There is no impact on the primary statements and affects the disclosure note only.</p>	<p>Yes a material disclosure amendment was made in the draft financial statements relating to the 2018/19 prior year comparator within the capital expenditure and financing note. This is a disclosure error only which does not impact on the financial position of the Council nor the primary financial statements. Management has appropriately reflected this correction within the 2019/20 draft financial statements.</p>	<p>No control findings have been identified as a result of work performed in this area.</p>

### 3. Significant findings - other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<p>Cash and Cash Equivalents</p>	<p>We have performed the following work in respect of cash and cash equivalents:</p> <ul style="list-style-type: none"> <li>Obtained external bank confirmations to corroborate the year end cash balance held by the council</li> <li>Reviewed bank reconciliations performed by management and investigated any reconciling differences above triviality</li> <li>Reviewed the finance ledger for any suspense accounts held at year end</li> </ul>	<p>We identified two separate issues relating to cash and cash equivalents:</p> <ol style="list-style-type: none"> <li>During our testing of cash and cash equivalents we identified that no regular bank reconciliations had been undertaken by the Council, the latest noted bank reconciliation was performed as at 31 March 2018. For an organisation the size of the Council, monthly bank reconciliations should be prepared and formally reviewed as a minimum. We would expect more regular reconciliations to be completed as part of routine financial management for example other London Boroughs perform daily reconciliations.</li> </ol> <p><i>(continued overleaf)</i></p>	<p>1. No misstatements have been identified as a result of work this finding.</p>	<p>1. Yes, control finding identified as a result of work performed.</p> <ul style="list-style-type: none"> <li><b>Undertaking timely and robust Bank Reconciliations</b></li> </ul> <p><b>Risk</b> - Without a fundamental key control ensuring that the bank balance reconciles to the Council’s own accounting records there is a risk that cash can be misappropriated or errors made that are not identified promptly.</p> <p><b>Recommendation</b> - This is a serious control weaknesses and the Council should ensure that routine bank reconciliations are carried out throughout the financial year and formally reviewed by a senior finance officer.</p>

### 3. Significant findings- other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Cash and Cash Equivalents	Noted above.	<p>In following up the lack of year end bank reconciliation we identified that Internal Audit provided a draft report to the Executive Director of Resources in July 2020 setting out the absence of bank reconciliations. None of the recipients had responded to Internal Audit until we escalated the matter to the Chief Executive in February 2021.</p> <p>It is unacceptable that serious Internal Audit findings were not actioned between July 2020 and February 2021 when we escalated the matter. Internal Audit is an important part of the Council’s governance process and the Council needs an appropriate mechanism to respond to Internal Audit promptly and effectively.</p> <p>2. We also identified that the Cash of the Local Economic Partnership (LEP) which was being held by the Council on its behalf had not been separately disclosed within the statement of accounts as required by the CIPFA Code of Practice.</p>	<p>2. Our work is in progress in this area, we are reviewing the disclosure adjustments required to be made in order to ensure third party assets/liabilities held by the Council have been accounted for and disclosed appropriately within the financial statements.</p>	<ul style="list-style-type: none"> <li>• <b>Ensuring that the work of Internal Audit is considered appropriately, and findings are actioned in a timely manner</b></li> </ul> <p><b>Risk</b> - There is a risk that internal control failings and weaknesses remain unaddressed which could adversely impact the control environment of the Council leading to serious failings in the Council’s processes and procedures and cause reputational damage.</p> <p><b>Recommendation</b> - Ensure that arrangements are in place to allow Internal Audit unfettered access to all members of the staff within the Council, and that there are clear reporting lines to allow any concerns to be raised in a timely manner. There should also be the option for items to be raised directly with Those Charged with Governance where the need may arise in the future.</p> <p>2. Our work is in progress in this area, any further control findings identified will be communicated within our audit findings report on conclusion of audit work performed.</p>

### 3. Significant findings- other issues

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Fairfield Halls	<p>We have performed the following work in respect of Fairfield Halls:</p> <ul style="list-style-type: none"> <li>• Obtained evidence to support the total cost incurred in relation to Fairfield Halls</li> <li>• Reviewed evidence and loan agreements to support the funds provided to Brick by Brick in relation to Fairfield Halls</li> <li>• Reviewed the accounting treatment for the capital expenditure incurred on the Fairfield Halls capital project</li> </ul>	<p>As the Council retained ownership of the asset, the expenditure in relation to the asset should be recorded in the Council's financial statements rather than in Brick by Brick's accounts. As a result:</p> <ul style="list-style-type: none"> <li>• <b>£62.6 million</b> of capital additions have been added to the Council's accounts</li> <li>• <b>£62.6 million</b> of long term debtors have been reversed</li> <li>• <b>£9.2 million</b> of interest included within debtors has been written back</li> <li>• The Capital Financing Note has been amended to reflect the changes</li> <li>• MRP in future years will now include a charge relating to the refurbishment expenditure</li> </ul>	<p>Yes misstatements have been identified as below:</p> <p><b>Adjusted CIES:</b></p> <p>DR Expenditure £11,035  DR Surplus or Deficit on Revaluation £51,626  CR MIRS £62,661</p> <p><b>Statement of Financial Position:</b></p> <p>DR Revaluation Reserve £51,626  DR Capital Adjustment Account £11,035  CR Long Term Debtors £62,661</p> <p><i>(being reinstatement of capital spend on Fairfield Halls)</i></p> <p>DR Financing and Investment Income and Expenditure £9,150  CR General Fund £9,150</p> <p><i>(being write out of interest receivable from Brick by brick for loans taken out for Fairfield Halls)</i></p>	<p>No specific control finding has been identified as a result of this finding however we note the weaknesses within governance and oversight arrangements in relation to capital projects which is commented on within our value for money work. Our value for money report will be communicated as a separate report on conclusion of our work in this area.</p>

## 4. Other findings

This section provides an update on progress on other issues identified during our audit of the financial statements:

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Employee Remuneration	<p>We have performed the following work in respect of employee remuneration:</p> <ul style="list-style-type: none"> <li>Tested a sample of starters and leavers from HR to gain assurance over the completeness and accuracy of FTE data recorded on the HR system</li> <li>Performed a substantive analytical review of expected payroll costs for each month compared to actual payroll costs incurred each month and investigated any significant variances from expectations</li> <li>Tested a sample of individual's payroll expenditure to ensure payroll costs had been accurately calculated</li> </ul>	<p>As part of our early testing of payroll, we identified that Full Time Equivalent (FTE) reports provided were inaccurate. As an example, an individual who was a contractor and not London Borough of Croydon staff, was included within the FTE report as they were required to be input onto 'Myresources' (HR) system in order to access the finance and ledger systems to perform migration of data work.</p> <p>The input of FTE should have been included as 0 on the HR system however had been input as 1 and therefore was input incorrectly. We were unable to gain assurance that the residual individuals included in the FTE reports were included correctly and therefore we were unable to use the FTE report as a key source for our planned audit approach (substantive analytical review) and therefore revised our audit approach to substantive sample testing of individual council staff.</p>	<p>No misstatements have been identified as a result of this finding as we were able to obtain assurance over the material accuracy of employee remuneration expenditure through alternative procedures.</p>	<p>Yes, control finding identified as a result of work performed.</p> <p><b>Inaccurate FTE data</b></p> <p><b>Risk</b> - There is a risk that reports used to monitor staff FTE and make decisions regarding staff is based on inaccurate data.</p> <p><b>Recommendation</b> - Management should ensure checks are performed on key reports such as FTE reports to ensure that reports used for internal and external reporting purposes are complete and accurate.</p>



## 4. Other findings

This section provides an update on progress on other issues identified during our audit of the financial statements:

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Financial Statement tests	<p>We have performed the following work in respect of financial statements tests:</p> <ul style="list-style-type: none"> <li>Ensured the trial balance from the finance system reconciles accurately to the draft accounts</li> <li>Performed a presentation and disclosure checklist review in line with Code of Audit Practice Guidance</li> <li>Performed a review of accounts including analytical reviews and investigated any significant variances</li> </ul>	<p>As a result of the work performed on the financial statements we found that it was difficult to obtain all the working papers to corroborate figures and disclosures in the accounts as a result of a high turnaround of staff. It also proved challenging to obtain audit evidence to support sample items selected for testing as a result in high attrition rates of staff and insufficient succession planning and handovers to new/replacement staff being carried out.</p>	<p>A number of misstatements were identified as part of our audit work performed on the draft financial statements, these are noted in other areas separately disclosed within this progress report.</p>	<p>Yes, control finding identified as a result of work performed.</p> <p><b>Ensuring appropriate succession planning is in place for the Finance Team</b></p> <p><b>Risk</b> - During the course of the 2019-20 financial year, the Chief Accountant left the Council to take up a different role, and was initially replaced by an interim Chief Accountant, who also moved on after a short period of time. Whilst new team members have come in and subsequently picked the accounts work up, it is clear that a considerable amount of the accounts preparation sat with this one individual, and thus when they left the Council they took an large element of the Council's corporate knowledge with them.</p> <p>There is a risk that financial processes and controls are not performed or are performed incorrectly as a result of knowledge gaps due to insufficient succession planning and handovers.</p> <p><b>Recommendation</b>- Going forward the Council should look to ensure this knowledge is spread more widely within the finance team to ensure they are no longer so reliant on one individual.</p> <p>As the Council is starting to build up its permanent finance team, it is important to ensure that tasks are shared more evenly amongst the team so there is less reliance on one or two key individuals as has been the case in previous years.</p>

## 4. Other findings

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
Investments	<p>We have performed the following work in respect of Investments:</p> <ul style="list-style-type: none"> <li>Obtained external confirmations to confirm the year end investment balance held by the Council</li> </ul>	<p>Our testing of the Council's investment in the Real Lettings Fund Investment identified that this was being held at cost instead of fair value as is required by the CIPFA Code. The Council has subsequently adjusted the valuation of this investment, which increases the value of this investment by <b>£2.0 million</b>. This issue has been identified in previous years and was reported as an Unadjusted Misstatement in the 2018-19 Audit Findings Report.</p>	<p>Yes misstatements have been identified as below:</p> <p><b>Adjusted</b></p> <p>CIES:</p> <p>CR Financing and Investment Income and Expenditure £2,000 DR MIRS £2,000</p> <p>Statement of Financial Position</p> <p>DR Long Term Investments £2,000 CR Financial Instruments Adjustment Account £2,000</p>	<p>No control findings have been identified as a result of work performed in this area</p>
Other Information	<p>We have performed the following work in respect of the Other Information:</p> <ul style="list-style-type: none"> <li>Reviewed the Annual Governance for consistency with our knowledge of the entity</li> <li>Reviewed the Narrative Report for consistency with our knowledge of the entity and the financial statements</li> </ul>	<p>A number of updates were required to be made to the Narrative Report and AGS as a result of events that occurred relating to 2019/20 financial year that unfolded once the narrative report and AGS had been published, this includes the S114 report and Report in the Public Interest that was issued.</p>	<p>As noted within the findings a number of updates were made to the Narrative Report and AGS to reflect events that occurred subsequent to the publication of the narrative report and AGS but were in relation to the 2019/20 financial year.</p>	<p>No control findings have been identified as a result of work performed in this area.</p>

## 4. Other findings

Area	Work undertaken	Findings to date	Misstatement identified?	Control finding identified?
<b>Provisions/ Contingent Liabilities</b>	<p>We have performed the following work in respect of Provisions:</p> <ul style="list-style-type: none"> <li>Reviewed and corroborated managements judgement relating to the calculation of provisions included within accounts</li> <li>Made inquiries of the Council's inhouse legal team, reviewed council and cabinet meeting minutes to identify any undisclosed provisions or contingent liabilities</li> <li>Reviewed a list of legal fees to identify any significant undisclosed provisions or contingent liabilities</li> </ul>	<p>Based on inquiries with the Council's inhouse legal team we identified a dispute from Kier over the Highways Maintenance Contract, we reviewed updated correspondence on this dispute which had not been reflected in the contingent liabilities note to the accounts.</p>	<p>Updates have been made to the narrative relating to the dispute with Kier over the Highways Maintenance Contract to reflect the movement in the case to the current date.</p>	<p>No control findings have been identified as a result of work performed in this area.</p>

## 5. Impact of Misstatements on the Financial Statements

This section provides an update on the impact of misstatements identified to date on the financial statements. Further analysis will be required on the impact on our audit report once all adjustments have been identified

	Statement of Comprehensive Income (CIES) £000	Statement of Financial Position £000
Overall Impact of Adjusted Misstatements identified as part of the audit	DR £13,247	CR £13,247
Overall Impact of Unadjusted Misstatements identified as part of the audit.	DR £12,588	CR £12,588

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## 6. Audit Progress

This section provides an update on the current progress on the audit of the financial statements:

Area	Work complete?	Items Outstanding?	Misstatement Identified?	Control Finding Identified?
Journals	Yes - Subject to responses to senior engagement team and quality review	None	X	✓
Going Concern	Not yet complete - Subject to internal panel processes	None	Not yet complete	Not yet complete
New system implementation	Yes - Subject to responses to senior engagement team and quality review	None	X	✓
PPE Opening Balance	Yes - Subject to responses to senior engagement team and quality review	None	X	X
PPE Additions	Not yet complete - Subject to responses to senior engagement team and quality review	Review of capitalised expenditure relating to Fairfield Halls	Not yet complete	Not yet complete
PPE Disposals	Yes - Subject to responses to senior engagement team and quality review	None	X	X
PPE Reclassifications	Yes - Complete	None	X	X
PPE Depreciation	Yes - Subject to responses to senior engagement team and quality review	None	X	X
PPE Closing Balance (Valuations)	Yes - Subject to responses to senior engagement team and quality review	None	X	✓
Investment Property	Yes - Subject to responses to senior engagement team and quality review	None	X	✓

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- X Misstatement or Control Finding has not been identified
- ✓ Misstatement or Control Finding has been identified

## 6. Audit Progress

This section provides an update on the current progress on the audit of the financial statements:

Area	Work complete?	Items Outstanding?	Misstatement Identified?	Control Finding Identified?
Long and Short Term Investments	Yes - Subject to senior engagement team and quality review	None	✓	X
Long Term Debtors	Not yet complete	Subject to review of six responses received in relation to sample items tested.	Not yet complete	Not yet complete
Short Term Debtors	Not yet complete	Subject to responses in relation to two queries raised.	Not yet complete	Not yet complete
Impairment of Receivables (Bad debt provision)	Yes - Subject to responses to senior engagement team and quality review	None	✓	✓
Cash and cash equivalents	Not yet complete	Subject to review of LEP cash adjustment	✓	✓
Long and Short Term Borrowing	Yes - Subject to senior engagement team and quality review	None	X	X
Short Term Creditors	Yes - Subject to senior engagement team and quality review	None	X	X
Long Term Creditors	Complete	None	X	X
Long and Short Term Provisions	Yes - Subject to senior engagement team and quality review	None	✓	X
Capital Grants Received in Advance	Yes - Subject to responses to senior engagement team and quality review	None	X	X

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- X Misstatement or Control Finding has not been identified
- ✓ Misstatement or Control Finding has been identified

## 6. Audit Progress

This section provides an update on the current progress on the audit of the financial statements:

Area	Work complete?	Items Outstanding?	Misstatement Identified?	Control Finding Identified?
Net Pension Liability	Yes - Subject to responses to senior engagement team and quality review	None	X	X
PFI Liability	Yes - Subject to responses to senior engagement team and quality review	None	X	X
Other Non-Current Liabilities	Not yet complete	Subject to outstanding issue relating to Emergency Temporary Accommodation accounting treatment	Not yet complete	Not yet complete
Reserves	Not yet complete	Subject to review of adjustment of final draft accounts	Not yet complete	Not yet complete
Employee Remuneration	Yes - Subject to responses to senior engagement team and quality review	None	X	✓
Operating Expenditure	Yes - Subject to responses to senior engagement team and quality review	None	✓	✓
Housing Benefit Expenditure	Yes - Subject to responses to senior engagement team and quality review	None	✓	X
Financing and Investment Income and Expenditure	Not yet complete	Subject to conclusion of debtors testing	Not yet complete	Not yet complete
REFCUS and Transformation Expenditure	Yes - Subject to responses to senior engagement team and quality review	None	✓	✓
Other Revenues	Yes - Subject to responses to senior engagement team and quality review	None	✓	✓

X Misstatement or Control Finding has not been identified

✓ Misstatement or Control Finding has been identified

## 6. Audit Progress

This section provides an update on the current progress on the audit of the financial statements:

Area	Work complete?	Items Outstanding?	Misstatement Identified?	Control Finding Identified?
Collection Fund Revenues	Yes - Subject to senior engagement team and quality review	None	X	X
HRA Rental Revenues	Yes - Subject to responses to senior engagement team and quality review	None	X	X
Government Grants	Yes - Subject to responses to senior engagement team and quality review	None	X	X
Expenditure Funding Analysis	Not yet complete	Subject to review upon receipt of adjusted draft accounts	Not yet complete	Not yet complete
Movement in Reserves (MIRS)	Not yet complete	Subject to review upon receipt of adjusted draft accounts	Not yet complete	Not yet complete
Cash Flow Statement	Not yet complete	Subject to review upon receipt of adjusted draft accounts	Not yet complete	Not yet complete
Dedicated Schools Grant	Yes - Subject to responses to senior engagement team and quality review	None	✓	X
Members Allowances	Yes - Subject to responses to senior engagement team and quality review	None	X	X
Remuneration Disclosures	Yes - Subject to senior engagement team and quality review	None	X	X
Audit Fees	Not yet complete-Subject to senior engagement team and quality review	Subject to finalisation of proposed audit fees	Not yet complete	Not yet complete
Capital Expenditure and Financing (including MRP)	Yes - Subject to senior engagement team and quality review	None	✓	✓

X Misstatement or Control Finding has not been identified

✓ Misstatement or Control Finding has been identified



## 6. Audit Progress

This section provides an update on the current progress on the audit of the financial statements:

Area	Work complete?	Items Outstanding?	Misstatement Identified?	Control Finding Identified?
Financial Instruments	Yes - Subject to senior engagement team and quality review	None	✓	X
Leases	Not yet complete	Subject to outstanding issue relating to Emergency Temporary Accommodation accounting treatment	Not yet complete	Not yet complete
Capital Commitments	Yes - Subject to responses to senior engagement team and quality review	None	X	X
Group Financial Statements	Not yet complete	Subject to review upon receipt of adjusted draft accounts	✓	✓
Covid-19	Yes - Subject to senior engagement team and quality review	None	X	X
Related Parties	Yes - Subject to senior engagement team and quality review	None	X	X
Annual Governance Statement	Yes - Subject to senior engagement team and quality review	None	✓	X
Narrative Report	Yes - Subject to senior engagement team and quality review	None	✓	X

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- X Misstatement or Control Finding has not been identified
- ✓ Misstatement or Control Finding has been identified



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